



Statement of

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Chuckals Office Products

Before the

**United States Senate
Small Business Committee**

**Impacts of Rising Gas Prices on
America's Small Businesses**

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Thank you Chairman Kerry, Ranking Member Snowe and distinguished members of the Committee for the opportunity to testify today.

My name is Janet Myhre, Director of Government Services Group, of Chuckals Office Products. I am here on behalf of the co-owners Al Lynden and Chuck Hellar and our great team of employees who support the success of our small business. I know that Chuck and Al would have liked to attend today's hearing, but as you know, airfare from the West Coast on a limited time frame is quite high.

Fundamental to Chuckals growth over the past thirteen years has been a combination of innovative use of technology and powerful strategic alliances that have enabled the company to offer big business pricing while still preserving small business values and service.

Use of a stockless, "just-in-time" distribution model, partnering with key suppliers and a commitment to find new and innovative ways to consistently streamline internal operations, have furnished a solid platform for sustained growth and enabled us to provide a broad product offering and consistent high service levels to our customers.

Fuel cost impact each and every transaction that our organization manages and is the third largest expense item on our financial statement after cost of goods and employee wages. To keep it simple we have three categories of fuel expense.

The first two categories represent the cost and / or expense of getting our product to our customers. Category one is local and regional deliveries that are handled through company owned vehicles and span a large portion of (middle and south) Puget Sound region in Washington State.

Currently this sector makes up 7% of our fuel cost. Category two is the servicing and delivery to both commercial and federal accounts under Federal Contracts nationwide through the use of third party carriers such as UPS, Federal Express and LTL truckload relationships.

This category represents 91% of our freight expense. A final category is the cost of shipments from wholesaler and manufactures to our organization and other internal fuel expense such as employee auto reimbursement; this represents 2% of our total fuel expense.

During the past 24 months we have experienced a total fuel increase of over 35% in the combined categories. The highest percentage was experienced in the category of national delivery, which has increased 36.4%.

Percent Increase:

Category One - Local Delivery	17.7%
Category Two – National Delivery (Category based on variables such as weight, order size, freight minimum and delivery method i.e. next day or 3 day delivery)	36.4%
Category Three - Other	29.9%
Total Fuel Increase	35.1%

To breakdown the impact on a per delivery bases, in January 2005, the average fuel cost to deliver to a local customer was **\$0.56** per every delivery. Today our costs have almost doubled and have peaked at **\$1.02** per delivery.

That equates to an **82%** increase to deliver a single order to our customers. When we use other carriers such as UPS, FedEx and DSL, per delivery costs are experiencing the same type of increase. For example, the cost to ship an order to an Army customer in January 2006 was averaging **\$12.40** per order, as of April 2007 that cost has risen by **34.2%** to **\$18.86** per order.

From the early days of Chuckals organization we have applied a business model of continually improving our business process to embrace technology and efficient practices. One of the first applications was to be an early leader in transitioning an industry which heavily depended on a traveling outside sales team to a technology driven inside team.

Even with this transition, and a limited outside sales team, we incur another associated cost with fuel for employee auto reimbursement. Indexing our expense reimbursement to the IRS guidelines we have watched the auto expense reimbursement jump by **38%** over the same period.

Today I have presented a brief synopsis of the hard cost and the direct impact of double-digit fuel expense that we are incurring in the delivery segment of our business. It is important to also discuss the impact this fuel increase has on the production and cost of goods.

It is quite amazing to discover how many products are petroleum based, such as vinyl and polypropylene resins which go into binders and hard plastic office products. We have seen the same percentage increase in our cost of goods. Many times our suppliers do not charge for hard transportation cost but increase the unit cost of goods price.

As an example we have seen our cost of goods price increase on a carton of paper by **15%** during the same 24 month period. This increase has a direct relationship with the cost of fuel both in manufacturing and transportation.

We continue to look for alternative ways to save and to cut fuel costs, through efficiencies of technology and management, such as mapping of local delivery routes, consolidating customer deliveries, routine maintenance of our fleet, and the continuous measurement and feedback of productivity of our drivers.

However, we have no options when it comes to the raw cost of fuel, it is still X miles from point A to point B and that will consume a defined amount of fuel. As we have discussed with Senator Cantwell and her staff; while there are new options for the consumer both in alternative fuel and vehicles to combat this fuel emergency, there currently are very few options for the small business owner who has commercial fleets, which run on gasoline.

Couple the 40% increase in fuel cost with the compounding increase in health care that we have also incurred in the past three years, the small business professional is finding it harder and harder to compete and stay in business.

On behalf of Chuckals, I thank Chairman Kerry, our Washington State Senator Maria Cantwell and the distinguished members of the Senate Small Business Committee for the opportunity to address this critical issue for today's small business sector.